

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2014-346-WS**

IN RE:)	
)	
Application of Daufuskie Island Utility)	APPLICANT'S PROPOSAL
Company, Inc. for Approval of an)	FOR PROCEDURE
Adjustment for Water and Sewer Rates,)	FOLLOWING REMAND
Terms and Conditions.)	AND EXPEDITED HEARING
_____)	

I. INTRODUCTION

On July 26, 2017, the South Carolina Supreme Court issued its Order reversing and remanding this case to the Commission for rehearing. The Applicant ("DIUC") hereby proposes the following as a guide to the Commission for establishing a procedure and scope of rehearing sufficient to address DIUC's Application for Approval of Adjustment in Rates in light of the Supreme Court's ruling.

II. THERE ARE LIMITED ISSUES FOR REHEARING.

On appeal, DIUC asked the Supreme Court to consider Order 2015-846's adoption of the ORS-Intervenors Settlement Agreement and other evidentiary rulings by the Commission. DIUC also appealed Order 2015-846's ruling upon five adjustments that were included in the Settlement Agreement between ORS and the Intervenors. By adopting the adjustments, Order 2015-846 rejected revenue calculations requested by DIUC and, instead, approved the Settlement Agreement's lower adjusted amounts thereby reducing the total rate increase available to the Applicant.

In its Opinion, the Supreme Court ruled Order 2015-846 "contained multiple adjustments which were entirely unsupported by the evidence presented to the Commission." Op. at 7. Accordingly, the Court reversed and remanded the matter "for a new hearing as to all issues." *Id.* The issues referred to by the Court are Order 2015-846's adjustments to:

- Property Taxes
- Plant In Service
- Bad Debts
- Management Fees
- Rate Case Expenses

These five adjustments define the parameters of what is to be addressed by the Commission on remand.

Although the Supreme Court did not individually analyze two of the five adjustments, the Court did explicitly address three adjustments “in order to provide guidance to the Commission on remand.” Op. at 7-8. Those adjustments were to Property Taxes, Plant In Service, and Bad Debts.

A. The Supreme Court Ruled on Property Taxes.

Based upon the evidence already in the record before the Commission, the Supreme Court ruled that DIUC must be allowed to collect revenue sufficient to pay the Property Taxes and Utility Taxes requested in the Application. No additional testimony or discovery on this issue is necessary, except to summarize for the Commission the amounts to be included under the Supreme Court’s ruling.

B. The Supreme Court Ruled Plant In Service Must Include the Facilities at the Elevated Tank Site.

The Supreme Court ruled the Elevated Tank Site should be included in rate base. The Court instructed:

DIUC owns the utility equipment located on the Elevated Tank Site, and is therefore entitled to include the value of this property in its rate base. On remand when the Commission recalculates DIUC's rate base, it should take into account its ownership of the water tank, well, pipes, and other utility equipment located on the Elevated Tank Site.

Op. at 9. No additional testimony or discovery on the Elevated Tank Site and associated equipment is necessary, except to summarize for the Commission the amounts to be included under the Supreme Court’s ruling that the Elevated Tank Site and associated equipment must be included in calculating Plant in Service.

Beyond its holding as to the Elevated Tank Site, the Supreme Court did not specifically address that Order 2015-846’s adoption of ORS’s downward adjustment of Plant In Service included more than just the value of the Elevated Tank Site; the adjustment also reflects “capital improvements, non-allowable plant, adjustments from the previous case not made by DIUC and retirements through July 31, 2015.” Hearing Tr. at 496. However, ORS (and therefore Order 2015-846) never explained what amount was included for the Elevated Tank Site versus these

other items. DIUC intends to present limited prefiled testimony addressing this issue, which was also the subject of ample testimony by DIUC in the initial proceeding.

C. Bad Debts Were Specifically Addressed by the Supreme Court.

In addressing Order 2015-846's allowance of \$30,852 for Bad Debt Expense, the Court ruled "all the testimony and exhibits presented by DIUC and ORS show DIUC had been unable to collect well over \$100,000 in bad debt." Op. at 11. DIUC intends to present limited prefiled testimony supporting its calculation of bad debt expense, including the percentage calculation for additional bad debt expense based upon the increase in rates to be implemented pursuant to the Supreme Court's ruling and following rehearing by the Commission.

D. Management Fees and Rate Case Expenses

At the initial hearing, DIUC quantified its management fees to date and requested the same. In order to include an amount for rate case expenses in the Application, DIUC estimated its rate case expenses for the instant case. After lengthy discovery, a full hearing, post-trial motions, an appeal, and now rehearing, that amount has increased substantially. As part of these rate case expense, DIUC has also incurred additional management fees for its manager's coordination of these efforts. Therefore, DIUC's rate case expenses will need to be supplemented by prefiled testimony. Specifically, the actual cost to complete the rate case, costs for appeals, and the cost of bonds will be submitted for the Commission to include in its calculation of rates.

The total management fees addressed in the Application and previously presented by DIUC in its testimony remains the same and is the amount DIUC sought under the pending Application. DIUC will present limited prefiled testimony supporting its calculation of management fees. Since the total amount for management fees was already explored fully in this case, additional prefiled testimony will be very limited.

III. NO ADDITIONAL DISCOVERY IS WARRANTED.

DIUC does not require and the other parties are not entitled to any additional discovery for the matters to be addressed on remand. While it is true the Supreme Court ruled the parties are not limited solely to the evidence previously presented, the Court did not open the door to lengthy and expensive discovery. DIUC has already responded to in excess of 150 individual discovery requests and the issues to be addressed on rehearing, *see supra*, do not warrant opening the door

to discovery. If the parties have questions as to the additional rate case expenses to be presented, DIUC will make a witness available at the hearing for cross examination.

IV. COST AND HARDSHIP ON THE APPLICANT MUST BE PREVENTED.

DIUC has been required to expend considerable funds appealing Order 2015-846 and the only way it survived was by collecting the Application's requested rates pursuant to bond. However, those bonds have already cost DIUC in excess of \$58,000 for premiums plus over \$7,000 in associated bank charges. That is an actual, direct cost to DIUC of over \$65,000. Additionally, the current bonds will expire December 31, 2017, and may not be renewable. Because the rates currently allowed by Order 2015-846 do not account for the known and real costs of DIUC's operation, DIUC will not be able to cover out of pocket costs unless it has the right to collect adequate revenue. It cannot do that without another bond, and since obtaining another bond is not a guarantee, the Applicant requires a decision before the end of the bond terms.

V. PROPOSED SCHEDULE

In order to move the case forward and to protect its ability to continue providing essential services to the residents of Daufuskie Island, DIUC proposes the following schedule:

October 13, 2017	Applicant Prefiled Testimony Due
October 27, 2017	Rebuttal Testimony Due
November 3, 2017	Surrebuttal Testimony Due
November 6, 2017	Hearing

VI. CONCLUSION

The issues to be addressed on remand are limited in scope and can be addressed efficiently under the proposed schedule. Additionally, as discussed at length at the initial hearing, the DIUC system requires extensive improvements and refinancing to fund those improvements cannot be accomplished until this matter is concluded. The situation is dire for DIUC. If this matter is allowed to extend into 2018, the utility may not be able to cover its operating costs resulting in a default on its debts. The Applicant requests the Commission implement a schedule that will result in an order of the Commission prior to the end of 2017.

Respectfully submitted,

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October 4, 2017
Charleston, South Carolina

CERTIFICATE OF SERVICE

This is to certify that on October 4, 2017, I caused to be served upon the counsel of record named below a copy of the foregoing APPLICANT'S PROPOSAL FOR PROCEDURE FOLLOWING REMAND AND EXPEDITED HEARING, by electronic mail, as indicated.

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